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C O N F I D E N T I A L SECTION 01 OF 04 AMMAN 005887

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STATE FOR NEA FRONT OFFICE AND FOR NEA/ELA
TREASURY FOR MILLS/DOWNARD
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E.O. 12958: DECL: 07/10/2015
TAGS: EAID EFIN PREL JO
SUBJECT: THE DEPUTY SECRETARY'S MEETING WITH JORDAN
MINISTER OF PLANNING SUHAIR AL-ALI

Classified By: CHARGE D'AFFAIRES DAVID HALE FOR REASONS 1.4 (B) AND (D)
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¶1. (U) The Deputy Secretary met with Jordanian Minister of Planning and International Cooperation Suhair al-Ali July 10 at 3:40 p.m. at the Ministry during a visit to Jordan in connection with the U.S.-Iraq Joint Commission for Reconstruction and Economic Development (JCRED) held July 11.

¶2. (U) Participants:

U.S.

The Deputy Secretary
Charge Hale
D Chief of Staff Wilson
USAID Administrator Natsios
EB Assistant Secretary Wayne
NSC Senior Director O'Sullivan
USAID Amman Mission Director Aarnes
Notetaker Lawless

Jordan

Minister of Planning al-Ali
Ministry Secretary General Maher Madadha
Ministry Director of Bilateral Cooperation Nasser Shraideh
Ministry Americas Desk Officer Ghaith Zureikat

Summary

¶3. (C) Minister of Planning and International Cooperation Suhair al-Ali gave an extensive presentation to the Deputy Secretary of Jordan's current budget challenges, which

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threatened the new government's aggressive reform agenda. Al-Ali noted the decision to eliminate oil subsidies had been taken even before the new government faced parliament for the first time, to show its resolve. She outlined plans for tax reform, privatization, government cost-cutting and pension reform. A deficit estimated at $950 million, however, undermined the government's effectiveness. The GOJ was continuing to seek debt swaps but was focusing more on debt relief -- especially for the $1.6 billion owed to Japan. (The minister's request for relief from U.S. debt was withdrawn in subsequent bilateral meetings.) She outlined Jordan's comprehensive plans through a National Agenda to enhance economic freedoms and a market economy, to involve its people at the grass roots in an inclusive political system, and to build government institutions marked by accountability and justice, with stronger anti-corruption measures.

¶4. (C) The Planning Minister touched briefly on continued GOJ requests from Saudi Arabia for 50,000 - 100,000 barrels in crude oil assistance per day. The Deputy Secretary encouraged Jordan to apply for assistance under the Millennium Challenge Account. He also emphasized our continuing efforts to assist Jordan, noting our support for higher debt swap ceilings at the Paris Club, our requests to Gulf neighbors for oil support to Jordan, and our willingness to engage on debt relief to the extent possible. The Deputy Secretary emphasized that part of the success of past GOJ

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requests had derived from an excellent bilateral relationship that had been built on careful dialogue and feedback. End Summary.

Planning Minister: Reforms Might be "Wiped Out"
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¶5. (C) Minister of Planning Suhair al-Ali expressed the Jordanian government's gratitude for U.S. assistance which had helped promote reforms in Jordan in legal, regulatory and other areas. The government was particularly grateful for

the $100 million included for Jordan in the FY05 Supplemental and its $70 million cash transfer component. It was now important for the people on the ground to see the fruits of the assistance-supported efforts, even as Jordan faced its most serious challenges in very trying times. Jordan was facing significant challenges because of the rise in oil prices, she said. Even if revenue topped JD 2.1 billion, the oil subsidies originally had amounted to over 16 percent of the budget's current expenditures (before the recent reduction in subsidies) and that share was growing as oil prices grew. Jordan's very strong program of reform would be "wiped out" if the Government of Jordan (GOJ) does not take tough measures to meet the challenges, she said.

¶6. (C) She noted that the Deputy Secretary's visit was taking place on the eve of the special session in parliament, where the government would have to show results. Needless to say, parliament would be very tough, she said. A vote of confidence would likely take place around July 21, depending on how many MP's spoke and for how long. Despite the pending political pressure, the GOJ had committed to a three-year plan to eliminate oil subsidies so that there was nothing that the MP's could say to sway the government to not take the right steps (to get rid of subsidies).

Reforms on the Revenue Side

¶7. (C) Tax reforms were at the top of the GOJ's agenda, said al-Ali. The GOJ would streamline the system to remove the loopholes. People were not paying now, but if the system were simpler, more would pay. The GOJ was also considering an increase in the general sales tax next year. Increasing the sales tax on hotel accommodations was also planned as that sector was doing extremely well, she said. The goal was to achieve a revenue rate that was about 33 percent of GDP, she added. (NOTE: In the 2005 budget, approved last December, revenues were estimated to be less than 25 percent of GDP.)

¶8. (C) The GOJ would accelerate privatization, including by selling Jordan Telecom and divesting about 40 percent of its holdings in Jordan Phosphate Mines. Other sales would be made from among holdings in the electricity sector. She hoped that privatizations in these three largest areas would start by the end of the year. When asked by the Deputy Secretary about the process -- including Parliamentary

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consent -- Minister al-Ali said that it might typically be a two-or-three step divestiture. Parliament would be consulted, she said, so that none could accuse the government of "selling the jewels for almost nothing." Proceeds from privatizations would go to more useful purposes, such as buying back debt or key capital expenditures, she noted.

Austerity Measures, Cost Control, Pension Reform
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¶9. (C) Minister al-Ali outlined a series of belt-tightening measures (reported septel) that showed the GOJ was serious about fiscal restraint. These measures (e.g., cutting government expenditures by 20 percent) were not meant to imply that the GOJ had solved its problems, she emphasized. Rather, it was to show the people that the government would lead by example. The World Bank has already outlined a program for reform of the GOJ's overly generous pension system and this would be pursued by next year. (NOTE: Pensions constitute 15 percent of expenditures in the FY 2005 budget.)

¶10. (C) Jordan's debt stock of USD $7.5 billion was another area requiring serious review, she noted, pointing to $4.6 billion owed to industrial nations of which $1.6 billion was debt to Japan. It was Jordan's intention to phase out its dependence on grants. Recapping her recent trip to Japan, she said that she found Japanese officials to be cooperative about debt relief. She added that they had said such relief for Jordan should be on the positive agenda of the U.S.

Debt Relief, More Aid Now...Phase Out ODA Later
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¶11. (C) Al-Ali requested that the USG consider debt relief of about USD $400-450 million in monies owed by Jordan to the United States, including export credits and direct assistance. Later in the discussion, the Deputy Secretary clarified that U.S. legislation requires budget scoring of debt relief according to a formula, and that Jordan might find better uses for U.S. appropriated funds than debt relief. (NOTE: In subsequent conversations with Charge, al-Ali has made clear that the GOJ is no longer interested in pursuing relief of U.S. debt but is still seeking strong support for the GOJ's appeal for debt relief from Japan. END NOTE.)

¶12. (C) Al-Ali said the request for debt relief should be viewed in the context of the GOJ's aggressive program to get rid of fuel subsidies and to phase out Jordan's dependence on overseas development assistance (ODA). With rising fuel prices, Jordan was going to have an FY 2005 deficit of $950 million, she stated. Next year, aid levels would need to increase. But there was light at the end of the tunnel and Jordan will phase out its grant needs. In the short term, however, Jordan was in a tough spot but it was taking tough actions and would continue to take tough decisions. What Jordan needed now was an increase in baseline assistance funds to help it through a difficult stretch. Some in the U.S. Senate seemed sympathetic to such an increase in the USG's FY 06 budget, she noted. Jordan's elimination of fuel subsidies was testing the limits, given a 14.2 percent poverty rate and 13.4 percent unemployment. She later said Jordan would require even higher levels in FY 07, but that in three to four years, the GOJ would "require less."

Millennium Challenge Account (MCA)

¶13. (C) Minister al-Ali reviewed at length Jordan's preparation for the MCA, noting its commitment to economic reform, its interest in a more inclusive political system, and its stronger national government structures that emphasized accountability, judicial reform, and anti-corruption measures. She emphasized that the ongoing National Agenda exercise (an action plan for major reform based on nationwide committees, due to be published in September) was the type of bottom-up process that was in keeping with MCA concepts. To overcome the significant challenges ahead, however, the GOJ would need the full support of the United States including in debt relief, enhanced aid, and through the MCC.

Deputy Secretary: Continued USG Assistance

¶14. (C) The Deputy Secretary noted that his first major experience with Jordan -- on the Free Trade Agreement, as USTR -- had been a good one because of the excellent rapport between the two nations and the ability to have good feedback that allowed both sides to understand the probabilities for success. On debt, we had supported the GOJ request to the Paris Club for a higher ceiling on debt swaps, but Germany, Japan, and Canada had reservations, he noted. He promised to keep checking on the GOJ request, but noted that the Japanese had been "unchanging" in their position and Germany might not be approachable until after the upcoming elections. (NOTE: A longer discussion on debt relief ensued, as noted above.)

¶15. (C) On increased assistance levels, he noted that Jordan as a front line state in the war on terrorism had benefited from supplemental assistance in the past two budget years. This was on top of the regularly appropriated amounts. While the USG would remain alert to the possibility of increased assistance, he could not say if there was going to be a Supplemental in FY 06. The higher oil prices had been a shock to the U.S. economy, too, he noted. Thus, it was a hard argument to make in Congress that Jordan needed help because of high oil prices. Nonetheless, the USG was committed to supporting governments making tough decisions and strategic decisions, he added.

¶16. (C) The Deputy Secretary said that Jordan appeared to be well positioned to compete in the MCA, but said the real challenge might be for the USG to determine how to assist all of the nations that qualify and whether the MCC funds would be spread thin or whether substantial investments would be made in a smaller number of countries.

¶17. (C) Minister al-Ali and the Deputy Secretary had a brief exchange on the GOJ's continuing requests to the government of Saudi Arabia for grants of crude oil, a need al-Ali calculated to be between 50 to 100 thousand barrels a day. The Deputy Secretary noted our own efforts in this regard and suggested that the GOJ continue to appeal to Kuwait and the UAE, as well.

¶18. (C) The Deputy Secretary closed by thanking the Minister for her presentation, noting that the USG understood well the importance of Jordan as a friend and ally in the region, and the difficult decisions the GOJ was taking and that the United States remained open to bilateral discussions of these and other opportunities for assistance and cooperation.

¶19. (U) D staff has cleared this message.
HALE